

Message Text

CONFIDENTIAL

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ACTION EA-12

INFO OCT-01 AF-10 ARA-10 EUR-12 ISO-00 CIAE-00 DODE-00

PM-05 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01

PRS-01 SP-02 SS-15 USIA-06 AID-05 COME-00 EB-08

FRB-03 TRSE-00 XMB-02 OPIC-03 LAB-04 SIL-01

OMB-01 GSA-02 STR-06 INT-05 IO-13 CEA-01 ITC-01

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-----028595 170934Z /20

P R 170801Z JAN 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 1788

AMEMBASSY LONDON PRIOTIY

INFO AMEMBASSY BANGKOK

AMEMBASSY BONN

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY KINSHASA

AMEMBASSY LA PAZ

AMEMBASSY LAGOS

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 0411

LONDON FOR ITC

E.O.11652: GDS

TAGS: EMIN, ITC

SUBJECT: INTERNATIONAL TIN POLICY: AMBASSADOR'S CALL ON MINISTER OF
PRIMARY INDUSTRIES

REF: KUALA LUMPUR 0383

1. SUMMARY: NEWLY APPOINTED MINISTER FOR PRIMARY INDUSTRIES,
DATUK TAIB, CALLED IN AMBASSADOR TO DISCUSS TIN. HE SAID
SHORTAGE WAS SERIOUS AND LONG TERM. HE DESCRIBED MEASURES
THE GOM WAS TAKING TO INCREASE PRODUCTION AND EXPRESSED
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THAT PRESENT ITC PRICE BAND IS TOO LOW. TAIB REITERATED GOM'S
DESIRE FOR EARLY U.S. CONTRIBUTION TO BUFFER STOCK AND
DISPOSAL FROM STOCKPILE. HE SAID FUNCTIONING OF ECONOMIC AND
PRICE REVIEW PANEL WILL PROBABLY BE MAIN BONE OF CONTENTION AT
THIS WEEK'S ITC MEETING. END SUMMARY.

2. AT MINISTER'S REQUEST, AMBASSADOR, ACCOMPANIED BY E/C

COUNSELOR, CALLED ON NEWLY APPOINTED MINISTER FOR PRIMARY INDUSTRIES, DATUK TAIB ON JANUARY 13 TO DISCUSS THE INTERNATIONAL TINE SITUATION. TAIB HAS ALSO ASKED THE GERMAN AND JAPANESE AMBASSADORS TO SEE HIM SEPARATELY TO DISCUSS THE SAME SUBJECT.

3. THE MINISTER EXPLAINED THAT HE WANTED TO OPEN UP BILATERAL CHANNELS OF COMMUNICATION WITH THE MAJOR TIN PRODUCING AND CONSUMING COUNTRIES TO SUPPLEMENT THE INTERNATIONAL TIN COUNCIL MEETINGS. HE HOPED THE INFORMAL AND CONFIDENTIAL NATURE OF BILATERAL DISCUSSIONS WOULD HELP EASE THE CONFLICTS THAT HAD ARISEN IN THE ITC. MALAYSIA DID NOT ALWAYS AGREE WITH THE EXTREME POSITIONS OF OTHER PRODUCING COUNTRIES AND HOPED TO ACT AS A BRIDGE BETWEEN PRODUCERS AND CONSUMERS.

4. TAIB SAID HE WAS CONVINCED THE TIN SHORTAGE WAS SERIOUS AND LONG TERM. (HE HANDED THE AMBASSADOR A PAPER ESTIMATING THAT SUPPLY WILL TAKE A DECADE TO CATCH UP WITH DEMAND, AND THE ACCUMULATED SHORTAGE WILL BE 113,000 TONS). HE SAID THE PRODUCING COUNTRIES, INCLUDING MALAYSIA, WERE TAKING MEASURES TO INCREASE PRODUCTION, BUT THESE WOULD TAKE 10 YEARS TO SHOW THEIR FULL EFFECT. IN THE MEANTIME, THE GOM HOPES THERE WILL BE DISPOSALS FROM THE U.S. STRATEGIC STOCKPILE BECAUSE IT DOES NOT WANT TO SEE THE PRICE RISE SO HIGH AS TO ENCOURAGE SUBSTITUTION. TAIB SEES M\$1800 PER PIKUL AS THE MAXIMUM PRICE THE GOM COULD LIVE WITH. HE ASKED THE AMBASSADOR ABOUT THE STATUS OF THE U.S. STOCKPILE SALE.
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5. AMBASSADOR RESPONDED BY FIRST SAYING HE WELCOMED SUCH INFORMAL DISCUSSIONS. WE ALL SHARE THE COMMON OBJECTIVES OF PRICE STABILITY AND SECURITY OF SUPPLY. HE REVIEWED THE DEVELOPMENT OF U.S. POLICY ON COMMODITY AGREEMENTS THROUGH OUR ADHERENCE TO THE INTERNATIONAL TIN AGREEMENT AND THE SECRETARY'S COMMITMENT LAST MAY THAT THE U.S. WILL CONTRIBUTE TO THE BUFFER STOCK, SUBJECT TO CONGRESSIONAL AUTHORIZATION. THE AMBASSADOR SAID LEGISLATION ON THE BUFFER STOCK AND STOCKPILE DISPOSALS HAD BEEN INTRODUCED, AND WE HOPED FOR PASSAGE DURING THIS SESSION OF CONGRESS. THE AMBASSADOR ASKED DATUK TAIB IF HE COULD BE MORE SPECIFIC ON THE GOM'S MEASURES TO INCREASE PRODUCTION.

6. TAIB SAID TAXATION WAS A DIFFICULT AREA FOR POLITICAL REASONS. AS TIN IS A WASTING ASSET, THE GOM USES TAXATION AS THE MEANS TO ASSURE THAT THE RESULTANT BENEFITS ARE SHARED BY THE GENERAL POPULATION. THE TAXES PROVIDE REVENUE FOR DEVELOPMENT PROGRAMS. RECENTLY, HOWEVER, BECAUSE OF INCREASED REVENUES FROM PETROLEUM, THE GOM WAS ABLE TO REDUCE TAXES ON TIN PRODUCERS SOMEWHAT, BUT SUCH TAX REDUCTIONS ARE DIFFICULT AND CAN ONLY COME SLOWLY. TAIB SAID THE GOM

IS PREPARING A NUMBER OF INFRASTRUCTURE DEVELOPMENT PROJECTS IN TIN PRODUCING AREAS, WHICH WILL ENCOURAGE PRODUCTION BY RELIEVING PRODUCERS OF THE RESPONSIBILITY TO UNDERTAKE SUCH PROJECTS. THESE PROJECTS WILL MAKE TIN FIELDS MORE ACCESSIBLE. TAIB SAID THE GOM IS ALSO WORKING WITH THE STATE GOVERNMENTS TO DEVELOP A UNIFORM MINING LAW. IN ADDITION, THE GOM'S DEPT. OF MINES IS CONDUCTING A PROGRAM TO EXPLORE FOR NEW MINERAL RESOURCES. TAIB IS FIGHTING TO EXPAND ITS BUDGET SO IT CAN HIRE MORE GEOLOGISTS.

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ACTION EA-12

INFO OCT-01 AF-10 ARA-10 EUR-12 ISO-00 CIAE-00 DODE-00

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OMB-01 GSA-02 STR-06 INT-05 IO-13 CEA-01 ITC-01

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P R 170801Z JAN 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 1789

AMEMBASSY LONDON PRIORITY

INFO AMEMBASSY BANGKOK

AMEMBASSY BONN

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY KINSHASA

AMEMBASSY LA PAZ

AMEMBASSY LAGOS

AMEMBASSY TOKYO

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LONDON FOR ITC

7. FINALLY, TAIB SAID CONSIDERABLE NEW INVESTMENT WILL BE REQUIRED. COSTS OF PRODUCTION ARE GOING UP. THE PRICE OF SUBSTITUTES IS GOING UP. FURTHERMORE, EASILY ACCESSIBLE TIN RESERVES ARE RUNNING DOWN. NEW ONES WILL BE MORE DIFFICULT AND EXPENSIVE TO MINE. HIGH PRICES WILL BE NECESSARY TO ENCOURAGE INVESTMENT. IN HIS OPINION THE CURRENT PRICE OF TIN IS LOWER THAN A TRUE FREE MARKET PRICE BECAUSE OF THE EXPECTATION OF U.S. STOCKPILE SALES. CONSEQUENTLY, HE

THOUGHT THE PRESENT ITA PRICE BAND SHOULD BE RAISED TO A MORE REALISTIC LEVEL.

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8. THE AMBASSADOR SAID HE BELIEVED THE U.S. WILL CONTINUE TO BE CONCERNED WITH THE PROBLEM OF STIMULATING PRODUCTION. HE ALSO THOUGHT THAT UNTIL THE U.S. BUFFER STOCK CONTRIBUTION AND STOCKPILE RELEASE ARE COMPLETED, WE WON'T BE ABLE TO JUDGE HOW REALISTIC THE CURRENT ITA PRICE BAND IS AND, THEREFORE, THE U.S. WILL CONTINUE TO RESIST ANY FURTHER INCREASE.

9. TAIB CONCLUDED BY SAYING HE THOUGHT THE PRINCIPAL BONE OF CONTENTION AT THIS WEEK'S ITC MEETING WILL BE THE FUNCTIONING OF THE ECONOMIC AND PRICE REVIEW PANEL. THE BOLIVIANS ARE VERY UNHAPPY ABOUT IT. THE GOM SYMPATHIZES WITH THEM AND THEY HOPED WE WOULD UNDERSTAND THAT THEY MAY HAVE TO TAKE A STRONG POSITION IN THE ITC. NEVERTHELESS, HE HOPED TO HAVE FURTHER DISCUSSIONS WITH THE AMBASSADOR IN ORDER TO LESSEN THE BAD FEELING THAT COULD RESULT FROM AN ACRIMONIOUS ITC MEETING.

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